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FROM : DEPARTMENT OF STATE

SUBJECT : Sino-Soviet Bloc Military and Economic Aid to Cuba.

REF :

Military Aid

Sino-Soviet bloc military aid to Cuba begun in July 1960 and amounted to about \$100 million at the beginning of 1962. Soviet military aid provided to Cuba this year will probably bring the total to about \$300 million by the end of this year. As far as is known, all of this is grant aid.

Economic Aid

In contrast, only about \$40 million in economic aid has been made available to Cuba, despite agreements signed with Bloc countries beginning in February 1960, calling for economic credits of \$457 million. More than half of the \$40 million drawn has been for the cost of technical services. None of the agreement has been implemented with the speed envisioned at the time of the signing.

The economic credits are to cover the costs of Bloc machinery and Bloc technical assistance for installing over 100 industrial plants of various types.

Breakdown, by country, of Bloc economic credits to Cuba is as follows:

<u>Country</u>	<u>Million US Dollars</u>
USSR	300
Communist China	60
Czechoslovakia	40
East Germany	10

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<u>Country</u>	<u>Million US Dollars</u>
Hungary	15
Poland	12
Rumania	15
Bulgaria	<u>5</u>
Total	457

Soviet Union: The initial Soviet commitment was made in February 1960 for \$100 million. The Soviets proffered a second \$100 million in mid-1961, and a third \$100 million in mid-1962.

Soviet credits encompass some twenty projects. The largest involve expanding the Cuban nickel industry, which now consists of two ore processing plants, by enlarging existing facilities and by adding a new plant to produce metallic nickel for export. The nickel industry is thus slated to absorb \$100 million of Soviet credit. The Soviets have also agreed to put up a steel mill, petroleum refinery, two fertilizer factories and some small installations. Such projects were talked about at the time of the initial \$100 million credit.

The purpose of the third and latest \$100 million is not clear. It may represent an upward revision of the scope and cost of the package tendered earlier. Or it may be balance of payments aid disguised as a development loan. The latter interpretation is suggested by the timing and terms of the loan, even though such a balance of payments loan would be contrary to usual Soviet practice. The loan was announced around the time that the Cuban-Soviet trade protocol for 1962 was revised to expand Soviet exports considerably and reduce Cuban sugar shipments slightly. In 1961 Soviet imports from Cuba were valued at \$310 million and exports (excluding arms) to Cuba were \$275 million. The account was balanced by some convertible payments to Cuba by the USSR and by excess shipments of satellite goods to Cuba cleared through an intra-bloc payments mechanism set up for bloc-Cuban trade. In 1962 Soviet imports from Cuba will be at about the 1961 level but exports to Cuba may be as high as \$400 million, thus creating a considerable gap which under the circumstances must be covered by a credit.

The initial (1960) hundred million dollar Soviet economic credit to Cuba is to be repaid over a 12-year period at 2.5% interest. The other two hundred million are medium-term credits; the hundred million dollar nickel credit must be repaid in 5 years.

By the end of 1961, the U.S.S.R. had delivered only \$2 million worth of goods under the industrial credit schemes and has delivered little since. In recent months there has been a stepup in planning and surveys for specific installations to be supplied but these schemes have not yet materialized in an appreciable increase in deliveries. For example, at the end of August

Minister

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Minister of Industries Ernesto Guevara went to Moscow to discuss, inter alia, all details connected with the Soviet installation of a million ton a year steel mill in Cuba. This steel mill had been offered in February 1960. At the conclusion of Guevara's stay in Moscow the joint communique announced that the Soviets had agreed only to undertake a feasibility study during the next year for a steel mill of unstated capacity.

Communist China: The Communist Chinese credit of \$60 million is to be for a complex of chemical plants, several auto parts factories and fountain pen and flashlight installations. The credit is to be interest-free, for a 10-12 year period.

There has been no follow-up whatsoever since the initial agreement.

Other Bloc Countries: The Czech credit of \$40 million is the largest and includes factories for motors, appliances and hardware as well as thermal electric plants and a vehicle assembly factory. The Rumanians have extended \$15 million for a cement plant and for expansion of various Cuban industries. Hungary extended a \$15 million credit for purchase of telephonic and other communication equipment. Poland extended a \$12 million credit for two ship-yards, one for repair and one for construction. The East German credit of \$10 million is for two textile plants, a radio-TV plant and other manufacturing units. Finally Bulgaria extended a \$5 million credit for chemical installations. Albania alone is not participating in European bloc credits to Cuba. The credits are generally for 10-12 years at 2.5 % interest.

Polish, East German, Rumanian and Hungarian deliveries have not yet begun. Czechoslovakia alone has made factory deliveries in quantity. A pencil factory and two hardware plants have entered production or are nearly ready to do so. Sizeable deliveries of machinery for a home appliance and an automotive assembly plant have begun. In the case of the other countries, there has been at least some degree of discussion, planning and commitment of funds to specific projects, but deliveries have not yet been made.

Factors Which Obscure Failure of Economic Aid Program: The almost-total failure of the Sino-Soviet bloc to embark on a meaningful economic development program for Cuba thus far has been obscured by several factors, including the following:

(1) Both Bloc and Cuban sources carry on a constant propaganda din about projects intended, giving the impression that projects are for all practical purposes on the verge of completion when they may not have even been started.

(2) Bloc

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(2) Bloc capital goods coming into Cuba under trade agreements, including trucks, tractors, motors, machines and ships, have been construed by the Cuban regime and misinterpreted by observers to be development aid from the Bloc.

(3) The Bloc technical assistance program in Cuba, consisting of about 1700 technicians in various economic capacities, has been incorrectly interpreted as an industrial development program.

The above information may be useful in contacts with government officials, the press, and other groups.

End.

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